



H.R. 3221 – Foreclosure Prevention Act of 2008

EXECUTIVE SUMMARY

The Housing bill, H.R. 3221, is expected to be considered on July 23, 2008. H.R. 3221 has ping-ponged between the House and Senate over the last several months. On July 22, 2008, Representative Barney Frank (D-MA) announced his housing proposal and the content of the legislation will be considered on the floor.

The bill includes FHA Modernization provisions, establishes the Federal Housing Finance Agency as the regulator of the Government Sponsored Entities (GSE), creates an Affordable Housing Trust Fund, provides several housing related tax provisions, increases the amount of the low-income housing tax credit, and provides for a first-time homebuyer tax credit. In addition, the bill contains several revenue raising offsets, including the credit card reporting requirement and worldwide allocation of interest.

Also included in the bill is the Administration's recent proposal to strengthen the financial position of Fannie Mae and Freddie Mac. The bill authorizes the Secretary of the Treasury to purchase equity in Fannie and Freddie and requires the Director of the Federal Housing Finance Agency in consultation with the Board of Governor's of the Federal Reserve to set capital requirements and other standards for the GSEs.

**Note: Fannie and Freddie's stock has decreased dramatically over the last several weeks due to a lack of investor confidence that the GSEs had enough capital liquidity to repay their investors because of the increased number of foreclosures in the real estate market. In order to strengthen their financial position, the Administration proposed a three part plan that includes the two provisions listed above as well as increasing the credit line available to Fannie and Freddie from the Treasury from \$2.5 billion to an undetermined amount. The Congressional Budget Office estimates that these three provisions could cost over \$25 billion.*

According to a preliminary estimate from the Joint Committee on Taxation, the bill will increase revenues by \$3.084 billion over five years and \$3.454 billion over 10 years.

FLOOR SITUATION

H.R. 3221 is being considered under a closed rule. The rule:

- Provides for consideration of the Senate amendment to the House amendments to the Senate amendment to H.R. 3221.
- Makes in order a motion by the chairman of the Committee on Financial Services or his designee to concur in the Senate amendment to the House amendment numbered one with the amendment printed in the report of the Committee on Rules accompanying the resolution.
- Waives all points of order against the motion.
- Provides that the Senate amendment and the motion shall be considered as read.
- Provides two hours of debate on the motion with 80 minutes equally divided and controlled by the chairman and ranking minority member of the Committee on Financial Service and 40



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minutes equally divided and controlled by the chairman and ranking minority member of the Committee on Ways and Means.

- Provides that upon adoption of the motion specified in the first section of this resolution, the House shall be considered to have receded from any remaining amendments or disagreements.
- Provides that during consideration of the motion to concur, notwithstanding the operation of the previous question, the Chair may postpone further consideration of such motion to a time designated by the Speaker.

H.R. 3221 is expected to be considered by the House on July 23, 2008.

BACKGROUND

The housing market in the United States is currently in a period of turmoil. In 2007, there were approximately 1.5 million foreclosures. This year economists estimate that there will be closer to 2.5 million foreclosures. The increase in foreclosures is largely attributed to the relaxed credit and underwriting standards used for mortgages over the past few years. These foreclosures have put a strain on many of our nation's financial institutions, limiting liquidity, and contributing to the fall of Bear Stearns earlier this year and the current stock market fluctuations.

Housing legislation has ping-ponged between the House and Senate over the past several months. The overarching provisions that were included in the each version of the bill were FHA Modernization, Government Sponsored Entity Reform, a low-income housing tax credit, first-time homebuyer tax credit, and affordable housing trust fund.

Since Congress began the consideration of the Housing bill, Fannie Mae and Freddie Mac have been strained by the number of foreclosures. Fannie Mae and Freddie Mac own or guarantee \$5.2 trillion of mortgages in the United States. As a secondary mortgage operator, Fannie and Freddie must have enough funds available to pay their investors, which include state and local governments, regional banks, and foreign governments. Currently, the two entities are highly leveraged, and only have enough capital to pay 1.6 percent of their \$5.2 trillion of liabilities. Although the Office of Federal Housing Enterprise Oversight (OFHEO) has repeatedly stated that Fannie and Freddie have "substantial cash and liquidity portfolios" to continue operating as usual, many investors have concerns about their financial viability in the current market environment. As a result of this, the stock prices of Fannie Mae and Freddie Mac declined 40 percent over the July 9-14, 2008, time period.

In response, the Administration issued a three part proposal designed to strengthen the financial position of Fannie Mae and Freddie Mac and restore investor confidence. The first part of the Administration's plan would increase the credit line available to Fannie and Freddie from the current line of \$2.5 billion to an undetermined amount. The second part would allow the Department of the Treasury to use taxpayer dollars to purchase equity in Fannie and Freddie. The third part would give the Federal Reserve a role in a newly created government sponsored entity regulator's process for setting capital requirements and other standards. In addition, to these steps, the Board of Governors of the Federal Reserve System authorized the New York Federal Reserve to lend to Fannie and Freddie "should such lending prove necessary." Should the GSEs need to borrow directly, they would pay the borrowing rate of 2.25 percent (the same rate offered to commercial banks and Wall Street firms).

The two proposals that require Congressional action – Treasury purchasing debt in the GSEs and giving the Federal Reserve a consultative role in the supervision of the GSEs – are included in this legislation.



SUMMARY

Division A – Housing Finance Reform

Title I – Reform of Regulation of Enterprises

Federal Housing Finance Agency: The bill establishes the Federal Housing Finance Agency (FHFA) and makes the Director of this agency the supervisory and regulatory authority over Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. The bill establishes an Inspector General and Office of the Ombudsman within the Agency. The bill also creates a Federal Housing Finance Oversight Board which will be made up of the Secretary of the Treasury, the Secretary of Housing and Urban Development, the Chairman of the Securities and Exchange Commission, and the Director. The Comptroller General will annually audit the financial transactions of the FHFA and report to Congress on such audit.

Reviews of Enterprise Assets and Liabilities: The Director must establish criteria governing the portfolio holdings of the enterprises to ensure sufficient capital backing. The Director may temporarily adjust these standards in times of economic distress or market disruption.

Risk-Based Capital Requirements: The Director shall by regulation establish risk-based capital requirements for the Federal Home Loan Banks to ensure capital reserves and support risk exposure.

Golden Parachutes: Under certain circumstances, the Director is authorized to prohibit indemnification or golden parachute payments to entity-affiliated parties.

Fraudulent Loans: The bill requires regulated entities to report fraudulent loans, or the suspicion thereof, in a timely manner to the Director.

Minimum Capital Levels: The bill authorizes the Director of the Federal Housing Finance Agency to increase the minimum capital requirements for the GSEs and gives the Board of Governors of the Federal Reserve a role in setting the minimum capital levels.

Temporary Purchase Authority for the Secretary: The Secretary of the Treasury is authorized to purchase obligations and other securities issued by Fannie Mae, Freddie Mac, and the Federal Home Loan Bank based on mutual agreement between the Secretary and the entity. The Secretary must determine that such action is necessary to provide stability to the financial markets, protect the taxpayer, and prevent disruptions in the availability of mortgage finance. The Secretary must report to Congress on the necessity of and considerations taken for this action.

The Secretary may sell any of these obligations or securities at any time, subject to terms of the security or other terms and conditions determined by the Secretary. This authority to purchase debt and equity expires on December 31, 2009, but the Secretary is authorized to hold those securities beyond that date in perpetuity.

Conforming Loan Limits: The bill increases conforming loan limits to 115 percent of the area median home price up to \$625,000.

Housing Goals: The Director must establish annual housing goals for single family homes and multifamily special affordable housing. There are three single-family housing goals and one multifamily housing goal. In addition, the enterprises are required to provide the Director with sufficient information to determine if minorities are charged a different interest rate than non-minorities. The Director must report to Congress on progress being made toward implementing these goals. Enterprises may petition the Director to reduce goal levels.

Annual Housing Report: The Director must submit a report to Congress annually detailing how each entity is achieving certain housing goals, and servicing underserved markets. The report must also include a



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number of other data related to mortgage lending. Such data will be made publicly available by the Director.

Housing Trust Fund: The bill establishes an affordable housing fund that would support home ownership among very low- and low-income families to increase investment in economically distressed areas, and to increase the supply of rental and owner-occupied housing for these families. Each enterprise would be required to allocate annually to the fund 4.2 basis points of its total new business purchases. The 4.2 basis points from the GSEs will be distributed as follows: 25 percent of the aggregate will be placed in a reserve fund to reimburse Treasury for expenses associated with the HOPE for Homeowners program (HOPE). Of the remaining 75 percent, 100 percent will be used to offset the HOPE program in 2009; 50 percent in 2010; 25 percent in 2011. In 2012 and beyond, 100 percent of the fund will go to the Affordable Housing Trust Fund. The Director will determine the formula amount for each grantee (States and Indian tribes) and publish them in the Federal Register. The grants may be awarded to state housing agencies, housing and community development agencies, and tribally designated housing entities. Grant funding may not be used for lobbying, political activities, and certain other uses.

Capital Magnet Fund: The bill establishes a Capital Magnet Fund in the U.S. Treasury to provide competitively awarded grants to support affordable housing for primarily extremely low-, very low-, and low-income families. Grantees must be a Treasury-approved community development financial institution or a housing nonprofit organization. Grant funds may not be used for political activities, lobbying, or advocacy.

Financial Education and Counseling Grants: The bill authorizes grants for organizations to provide financial education and counseling services to homebuyers. This legislation authorizes such sums as are necessary to carry out this provision. The Comptroller General must study and report to Congress on the effectiveness and impact of this grant program.

Enterprise Board of Directors: The bill eliminates the requirement that five Directors on the boards of Fannie Mae and Freddie Mac be appointed by the President. The size of the enterprise boards are also reduced from 18 to 13, unless the Director determines that another number is appropriate.

Federal Home Loan Bank (FHLB) Directors: Each FHLB will be managed by a board of 13 directors, or another number the Director determines to be appropriate. A majority of the directors of each FHLB must be officers of member banks of that FHLB. Other directors will be independent, comprising no less than two-fifths of the board membership.

Oversight of the Federal Home Loan Banks: The Federal Housing Finance Agency replaces the Federal Housing Finance Board as the oversight agency for the FHLBs.

Federal Home Loan Bank Information Sharing: A FHLB may have access to information needed to determine the extent of its joint and several liability. The Director will make available to the FHLBs such information as is necessary for this purpose and must promulgate appropriate information sharing regulations. Information sharing regarding liability does not waive any privilege.

Community Financial Institution Members: The bill raises the Total Asset Requirement for Community Financial Institution Members from \$500 million to \$1 billion.

Office of Federal Housing Enterprise Oversight (OFHEO): OFHEO is abolished by this legislation. The oversight powers of OFHEO are transferred to the newly created Federal Housing Finance Agency.

HUD Contract Conversions: The Secretary of Housing and Urban Development may convert, at the request of the owner, contracts for project-based rental assistance of multifamily housing projects that



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exceed 5,000 units to a new project-based contract under Section 8 of the United States Housing Act of 1937.

HOPE for Homeowners Program: The bill establishes the HOPE for Homeowners Program within the Federal Housing Administration to refinance certain borrowers into fixed-rate mortgages with lower principal amounts than their existing obligations. The bill authorizes \$300 billion for the FHA to carry out this program. In order to qualify for the program, borrowers must have a mortgage debt-to-income ratio greater than 31%. The program is to apply only to mortgages for primary residences purchases prior to January 1, 2008. In addition, the refinancing of the existing mortgage can not be greater than 90 percent of the current appraised value of the property. In order to carryout these mortgage insurance obligations, the bill establishes the Home Ownership Preservation Entity Fund.

S.A.F.E. Mortgage Licensing Act: This bill sets forth procedures, requirements, and standards for mandatory registration and State licensing of mortgage loan originators. This provision requires the federal banking agencies to develop and maintain a system for registering depository institution employees as registered loan originators with the National Mortgage Licensing System and Registry.

The bill directs the Secretary of Housing and Urban Development (HUD) to establish and maintain a backup licensing and registration system for loan originators operating in a state that either does not have a licensing and registering system for loan originators that meets the requirements of this Act, or does not participate in the Registry.

This bill requires the HUD Secretary to establish and maintain a backup licensing and tracking system for loan originators if the Registry is failing to meet the requirements of the legislation. In addition to other authorities allowed under State law, State licensing authorities may also conduct certain investigations and examinations.

**Note: The S.A.F.E. Mortgage Licensing Act (S. 2595) was introduced by Senator Dianne Feinstein (D-CA) on February 6, 2008, and is almost identical to legislation introduced by Financial Services Committee Ranking Member Spencer Bachus (R-AL) on July 12, 2007 (H.R. 3012). The Bachus provisions on mortgage licensing and registration were ultimately incorporated in H.R. 3915, which passed the House on November 15, 2007, by a vote of [291-127](#).*

Small Public Housing Authorities Paperwork Reduction Act: This legislation exempts a qualified public housing agency from the requirement to prepare an annual public agency plan if the agency administers 500 or fewer public housing dwelling units or section 8 vouchers; and is not designated as a troubled agency. The bill requires an agency to continue to make an annual civil rights certification and establish and consult with one or more resident advisory boards.

Division B – Foreclosure Prevention **FHA Modernization Act of 2008**

Eligibility for Insurance and Mortgage Limits: The bill increases insurance and mortgage limits to 115 percent of the area median home price up to \$625,000. These increases are to take effect December 31, 2008.

Mortgage Insurance Premiums: Allowable upfront premium ceiling would be increased from 2.25 percent to 3 percent of the mortgage amount. Premiums could not exceed 2.75 percent for first time homebuyers who complete a counseling program. Allowable annual premium ceiling remains the same which is .50 percent. The bill includes a 12-month moratorium of implementing FHA risk based premiums as published in the Federal Register on May 13, 2008. Implementation of the 12-month moratorium will be delayed until October 1, 2008.



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Mutual Mortgage Insurance Fund: All Single Family Title II programs are placed in the MMI fund and the bill specifically sets MMI fund limit loan commitments to the amount specified in appropriations act for each fiscal year. Establishes that HUD has the fiduciary responsibility to ensure that the MMI fund remain financially sound; requires an annual independent actuarial study of the fund and quarterly reports to Congress; requires the adjustment of insurance premiums when needed and operational goals for the Fund. Finally, the homeownership voucher program and home equity conversion program are made part of the MMI fund obligation instead of the General Insurance Fund.

Home Equity Conversion Mortgages: Removes the limit on the aggregate number of HECMs that may be originated and establishes a national HECM loan limit equal to the Freddie Mac conforming loan limit. The bill requires borrowers to receive counseling through and independent third party that is not associated with or compensated by the party that is involved in funding, originating, or servicing the mortgage or the sale of annuities, investments, or other financial or insurance products. The bill requires HUD to conduct two studies, the first on mortgage insurance premiums on HECMs to determine the effect of limiting costs and fees under the program and the second to determine the consumer protection and underwriting standards to ensure that the purchaser of such products would be appropriate for the borrowers. Finally, the bill prohibits lenders from requiring borrowers to purchase an insurance annuity or other product as a condition of eligibility for HECM.

Alternative Credit Rating: The bill directs the Secretary to establish a pilot program making an automated process to provide alternative credit rating information for mortgagors and prospective mortgagors with insufficient credit histories seeking federally insured mortgages on 1- to- 4 family residences. Alternative credit rating information used in determining creditworthiness may include rent, utilities, and insurance payment histories. Federally insured mortgages made using alternative credit rating may not exceed 5 percent of the mortgages made under this bill. This provision is to sunset five years after the enactment of this legislation.

Homeownership Preservation: The Secretary of Housing and Urban Development and the Commissioner of the Federal Housing Administration, in consultation with other entities, is to develop and implement a plan to improve the loss mitigation process of the FHA and report to Congress on this plan.

Limits on Mortgage Insurance Premium Increases: From the date of enactment until October 1, 2009, premiums charged for mortgage insurance for multifamily housing programs may not be increased above their premium amounts effective on October 1, 2006, unless otherwise determined necessary by the Secretary.

Manufactured Housing Loan Modernization: Under the bill, GSEs must make available loan products and flexible underwriting guidelines for manufactured housing purchased by low- and moderate-income families, as well as underserved markets in rural areas.

Maximum Loan Limits and Underwriting Criteria: The bill increases loan amounts to: \$25,900 for repairs and improvements to manufactured homes; \$69,678 for financing the purchase of a manufactured home; \$92,904 for financing the purchase of a manufactured home and a suitably developed lot on which to place the home; and \$23,226 for financing the purchase of a manufactured home and a suitably developed lot on which to place the home. The Secretary is also to develop underwriting criteria for loans and advanced of credit in connection with a manufactured home.

Foreclosure Protection for Service members: The Secretary of Defense is directed to create a program that will advise and counsel members of the Armed Forces (including members of the National Guard and Reserve) who are returning from active service duties abroad on steps that they may take to prevent or forestall mortgage foreclosures. The bill also extends existing stays on the foreclosure proceedings on homes of Service members to nine months. These provisions are to expire on December 31, 2010.



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Emergency Assistance: The bill authorizes \$4 billion dollars for FY2008 to be distributed by the Secretary of Housing and Urban Development towards assisting States and units of general local government for the redevelopment of abandoned and foreclosed homes and residential properties. These State and local governments must use funds distributed by the Secretary within 18 months after their receipt for the purchase and redevelopment of abandoned and foreclosed homes and residential properties.

Housing and Credit Counseling: The bill authorizes \$180 million to the Neighborhood Reinvestment Corporation for foreclosure mitigation activities outline under the Consolidated Appropriations Act of 2008. Of the monies made available under this provision, \$30 million shall be set aside for the NRC to make grants to counseling intermediaries to hire attorneys to assist homeowners who have legal issues directly related to the homeowner's foreclosure, delinquency, or short sale.

Enhanced Mortgage Loan Disclosures: The bill includes provision which increase the clarity of financial disclosure forms and increases civil liability penalties related to financial disclosure dishonesty.

Home Improvements and Structural Alterations for totally disabled Members of the Armed Forces: The Secretary of Defense may make improvements to the homes of members of the Armed Forces who have been permanently disabled while serving in active duty. Improvements must be related to the nature of the injury sustained and made to the homes of Armed Forces Members whose injuries are likely to require their discharge from active military service.

Homeless Assistance: This provision amends the McKinney-Vento Assistance Act by increasing the authorization of appropriations for grants of the education of homeless children and youth to \$100 million.

San Francisco, California: The Nihonmachi Terrace in San Francisco, California shall receive Section 8 voucher assistance for low and moderate-income residents.

Malden, Massachusetts: The Heritage Apartments in Malden, Massachusetts, are considered low-income housing to enable its residents to receive enhanced voucher assistance under this legislation. In addition, the bill directs the Secretary to approve the prepayment and subsequent transfer of the property without any further condition other than a restriction that the housing is restricted for occupancy by families with incomes not exceeding 80 percent of the adjusted median income for the area.

Transfer of Rental Assistance Contracts in Ohio: The bill directs the Secretary to transfer project-based rental assistance and housing assistance on housing managed by Community Properties of Ohio Management Services LLC to other properties located in Franklin County, Ohio and on housing owned by The Model Group, Inc to other properties located in Hamilton County, Ohio.

Note: The Massachusetts and Ohio provisions were previously passed by the House as part of the Section 8 Voucher Reform Act (H.R. 1851) on July 12, 2007, by a vote of 333 to 83.

Housing Tax Credit Coordination Act of 2008: This bill requires HUD to implement administrative and procedural changes to expedite approval of HUD multifamily projects funded in conjunction with housing tax credits or tax-exempt housing bonds. HUD is required to consult with the IRS and to take actions as appropriate to simplify coordination of rules, regulations, forms and approval requirements for combined funding. The bill also includes provisions to streamline the use of FHA-insured multi-family loans with housing tax credits. The maximum Section 8 voucher contract is increased from 10 to 15 years. The time period for completion of Shelter Plus Care projects that also use funding from housing tax credits is extended. This bill authorizes 15 year terms for renewal of Shelter Plus Care permanent housing assistance contracts. This provision requires state agencies administering housing tax credits to submit information to HUD annually regarding characteristics of projects financed through such tax credits. The bill authorizes \$2.5 million in fiscal year 2009 and \$900,000 in fiscal years 2010 through 2013 for the purposes of this section.



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Division C – Tax Related Provisions

Low-Income Housing Tax Credit: Increases the amount of low-income housing tax credits each state may allocate for projects in the state and makes numerous other changes to the credit.

First-time Homebuyer Tax Credit: Provides a refundable tax-credit for the next year equal to 10 percent of the purchase price of the home (up to \$7,500). The credit is phased out for individuals with adjusted gross income above \$75,000 (\$150,000 for married couples) and is only applicable to a principal residence purchased on or after April 9, 2008, and before July 1, 2009. The credit operates more like an interest-free loan, as homebuyers would be required to repay the government the amount of the tax credit over 15 years.

Property Tax Deduction: Temporarily provides an additional standard deduction (for non-itemizers) for real property taxes paid, up to \$500 for individuals (\$1000 for married couples).

Mortgage Revenue Bonds: Provides \$11 billion in additional tax-exempt bond authority to provide loans to first-time home buyers and to allow refinancing of certain current mortgages.

**Note: Current law only allows Mortgage Revenue Bonds to be used for new homes.*

Municipal Bonds: Temporarily allows state and local bonds which are not issued for housing purposes to retain their tax-exempt status, even if guaranteed by the Federal Home Loan Banks (under current law, housing-related debt which is credit enhanced by the FHLBs retains its tax-exempt status, but non-housing debt does not).

AMT and Research Credits: Allows taxpayers to receive 20 percent of the excess of the value of their AMT or research and development tax credits as long as they invest in assets that qualify for bonus depreciation. The amount is capped at the lesser of 6 percent of historic AMT and R&D credits or \$30 million.

Debt Limit: The bill increases the statutory limit on the public debt to \$10.615 trillion from the current limit of \$9.815 trillion.

Credit Card Reporting Requirement: the bill requires banks and third party settlement organizations to provide the Internal Revenue Service (IRS) the name, address, and Taxpayer Identification Number (TIN) of each participating merchant and the gross amount of reportable transactions that the bank or settlement organization has made to each merchant. *The Joint Committee on Taxation (JCT) estimates that this provision will raise \$1.422 billion over five years and \$9.529 billion over ten years.*

Worldwide Interest Allocation: In 2004, Congress authorized a change in the way costs stemming from interest between United States sources and foreign sources of income are treated for the purposes of determining a taxpayer's foreign tax credit eligibility. This implementation of this tax benefit was delayed until tax year 2008, and H.R. 3996 will further delay its implementation for two years (until 2011) and further reduce the value of the provision in 2011, but not following years, by 70 percent. *The JCT estimates that this provision will raise \$7.627 billion over five years.*

COST

JCT: According to a very preliminary analysis by the Joint Committee on Taxation (JCT), the bill will increase revenues by \$3.804 billion over five years and \$3.454 billion over ten years.

CBO: According to the Congressional Budget Office Analysis of the Administration's three part proposal for Fannie Mae and Freddie Mac, which has been incorporated into H.R. 3221, "the Congressional Budget Office (CBO) estimates that there is a significant chance—probably better than 50 percent—that the



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proposed new Treasury authority would not be used before it expired at the end of December 2009. If the proposal is enacted, private markets might be sufficiently reassured to provide the GSEs with adequate capital to continue operations without any infusion of funds from the Treasury...In CBO's view, however, that scenario is far from the only possible result. Indeed, many analysts and traders believe that there is a significant likelihood that conditions in the housing and financial markets could deteriorate more than already reflected on the GSEs' balance sheets, and such continuing problems would increase the probability that this new authority would have to be used. Taking into account the probability of various possible outcomes, CBO estimates that the expected value of the federal budgetary cost from enacting this proposal would be \$25 billion over fiscal years 2009 and 2010. That estimate accounts for both the possibility that federal funds would not have to be expended under the new authority and the possibility that the government would have to use that authority to provide assistance to the GSEs." ([CBO Cost Estimate](#))

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